

August 25, 2021

India Shelter Finance Corporation Limited: Provisional [ICRA]AAA(SO) assigned to Series A1 PTC and Provisional [ICRA]A+(SO) assigned to Series A2 PTC issued by Rafael 08 2021, backed by a pool of mortgage loan receivables

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Rafael 08 2021	Series A1 PTC	29.17	Provisional [ICRA]AAA(SO); Assigned
	Series A2 PTC	2.89	Provisional [ICRA]A+(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/ documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by India Shelter Finance Corporation (ISFC). The PTCs are backed by receivables from a Rs. 32.06-crore (principal amount) pool of mortgage loan receivables.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 7.40% of the pool principal to be provided by the Originator, (ii) subordination of 9.00% of the pool principal for PTC Series A1, and (iii) subordination of the entire excess interest spread (EIS) in the structure. The provisional ratings are also based on the integrity of the legal structure. The ratings are subject to the fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of subordination for PTC Series A1, excess interest spread (EIS) and cash collateral (CC)
- Low weighted average LTV of around 37%
- High weighted average seasoning of 34 months
- High share of contracts in pool having CIBIL score more than 750 (~96%)

Credit challenges

- High geographical concentration with share of top 3 states at around 83%
- Pool has contracts with fixed rate, while the PTC yield is floating. Hence, the transaction is exposed to interest rate basis risk and any adverse movement in the benchmark yield is likely to reduce the EIS available in the transaction
- Pool performance will remain exposed to any disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The monthly promised cash flows for PTC Series A1 will comprise a payment of 91% of the billed pool principal and the interest payment at the predetermined interest rate on the PTC Series A1 principal outstanding. Further, 9% of the billed pool principal is to be paid on an expected basis to the PTC Series A1. Series A2 PTC pay-outs are completely subordinated to Series A1 PTCs. The pool amortisation schedule is subject to modification, on account of prepayments.

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 9.00% of the pool principal in the form of Series A2 PTC. After the Series A1 PTC is fully paid, no subordination would be available for Series A2 PTC. Additionally, the EIS available in the structure will provide the credit enhancement support to the transaction. The EIS (50% of the pool principal initially, based on the indicated PTC yield, for Series A1 PTC and 37% for Series A2 PTC) will flow back to the originator after the promised and scheduled pay-outs to the PTCs have been made every month.

A CC of 7.40% of the initial pool principal (Rs. 32.06 crore) provided by ISFC would act as a further credit enhancement in the transaction. The CC will be in the form of a fixed deposit maintained with a bank. In the event of a shortfall in meeting, the promised PTC pay-outs during any month, the trustee will utilise the CC to meet the shortfall. The CC not only provides credit support against losses in the pool, it also imparts liquidity to the transaction.

There were no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top three states constituting 83% of the pool principal. The pool consists of monthly paying loan contracts, with moderate seasoning (33.8 months on average) and pre-securitisation amortisation (12.3% on average). Almost all the loans in the pool have a fixed interest rate. None of the contracts in the pool have availed a moratorium since March 2020. However, the pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

Performance of past rated pools: ICRA has rated three pools originated by ISFC in the past, backed by mortgage loans. All these transactions are live and their performance (those which have completed at least three months, post securitisation) has been good till date with the cumulative collection efficiency exceeding ~92% in all three transactions (where collection efficiency was negatively impacted during the moratorium period). Two of the pools have seen considerable amortisation till June 2021 (pay-out month), resulting in a significant build-up in the credit enhancement for the balance PTC pay-outs. No CC has been utilised till date.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and coefficient of variation (CoV) are arrived at on the basis of the values observed in the analysis of the originator's loan portfolio. The assumptions may also be adjusted to account for the current macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts. After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 3.00-4.00%, with certain variability around it.

Liquidity position

Superior for PTC Series A1

The cash collections and the credit collateral available in the transaction are expected to be highly comfortable to meet the PTC Series A1 investor pay-outs. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the PTC pay-outs for a period of 33 months.

Strong for PTC Series A2

PTC Series A2 is subordinated to PTC Series A1 and the entire principal amount is promised on the scheduled maturity date of the transaction. The cash collections and the credit collateral available in the transaction are expected to be comfortable to meet the PTC Series A2 investor pay-outs.

Rating sensitivities

Positive factors

PTC Series A1: Not Applicable

PTC Series A2: Rating could be upgraded if sustained strong collection performance is witnessed, leading to low delinquency levels and further build-up of credit enhancement cover.

Negative factors

PTC Series A1 and PTC Series A2: The ratings could be downgraded based on sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels

Analytical approach

The rating action is based on the analysis of the performance of ISFC's portfolio till June 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. KYC Chartered Accountant's certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/ execute the pending documents in the near-term. However, in case of continued pendency of the actions/ documents beyond one-year of this publication, the provisional rating would be withdrawn for the transaction, even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/ documents are not completed for the transaction within one year (validity period) from the assignment of ratings, the provisional rating will be withdrawn, in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

India Shelter Finance Corporation Limited (ISFC) is a housing finance company incorporated in 1998 as Satyaprakash Housing Finance. The company was acquired by the current investors in September 2009. ISFC is focused on the low-cost and affordable housing segment, targeting self-employed customers in the informal low-middle income segment. The company was operating from 115 branches and had a managed portfolio of Rs. 2,198 crore as on March 31, 2021. At present, the company operates in 15 states, namely Rajasthan, Madhya Pradesh, Maharashtra, Gujarat, Chhattisgarh, Uttar Pradesh, Punjab, Uttarakhand, Odisha, Karnataka, Tamil Nadu and Haryana, Delhi, Andhra Pradesh, Telangana. ISFC offers loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land, home purchase and top up loan linked with HL (defined as loan against property as per company's product definition)

The company reported a profit of Rs.87.39 crore on a managed asset base of Rs. 2,200 crores in FY2021 vis-à-vis a profit of a profit of Rs. 46.91 crore on a managed asset base of Rs. 1,520 crores in FY2020. The company's gross and net NPAs stood at 1.78% and 1.23%, respectively, as on March 31, 2021.

Key financial indicators

India Shelter Finance Corporation Limited (ISFC)	FY2020	FY2021
Total income	228.68	293.07
Profit after tax	46.91	87.39
Net worth	848.28	937.27
Total assets	1815.18	2493.65
Gross NPA (%)	1.29%	1.78%

Source: Company and ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Instrument Name	Amount Rated (Rs. crore)	Amount Outstanding	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 25, 2021			
1	Rafael 08 2021	Series A1 PTC	29.17	29.17	Provisional [ICRA]AAA(SO)	-	-	-
		Series A2 PTC	2.89	2.89	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Rafael 08 2021	PTC Series A1	August 2021	7.65%^	Dec 2039	29.17	Provisional [ICRA]AAA(SO)
	PTC Series A2	August 2021	11.00%^	Dec 2039	2.89	Provisional [ICRA]A+(SO)

Source: Company, ^ Coupon rate is floating and linked to investor's MCLR

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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